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SUBJECT: GHANA MINING HIGHLIGHTS, NOVEMBER 2008

1. SUMMARY:

1A. The Government of Ghana announced the privatization of its troubled state-owned aluminum company, along with accompanying foreign investments worth USD 4.5 billion. The purported international buyers announced that no such deals existed.

1B. Ghana has benefitted from increased gold prices, while diamond production has shrunk. Although mining operations have been subject to increased input costs and perennial social and political pressures, new investments in Ghana's mining sector continue.

1A. Privatization of VALCO: Chimera Deal, Fiasco Real

12. (U) Parliament approved the partial privatization (70 percent sale) of the state-owned Volta Aluminum Company (VALCO) for USD 175.5 million. (NOTE: VALCO was originally established by Kaiser and ALCOA in the 1960s. Kaiser sold its 90 percent share to the GOG in 2004, and ALCOA sold its 10 percent share in June of 2008. (Rio Tinto mines bauxite in Ghana, but exports it for processing.) While VALCO could potentially produce 200,000 tons of aluminum a year, it has been shuttered since March 2007 due to high power prices resulting from lower water levels at the Akosombo Dam. Opposition politicians questioned both the terms of the sale, and the current government's apparent haste in concluding these deals during its 'lame duck' period.

13. (U) The alleged buyer of the 70 percent share was represented to parliament as 'International Aluminum Partners,' a consortium of Brazilian mining firm Companhia Vale do Rio Doce (CVRD, aka 'Vale') and Norway's Norsk Hydro. Simultaneous with the sale, the Government announced that the consortium would invest USD 4.7 billion for two new bauxite mines, a 2 million ton alumina refinery in Tema, upgraded rail links between Tema and Kumasi, and a new 1200 Megawatt thermal generation plant at Tema.

14. (U) Subsequent to the announcement of parliamentary approval for the sale, Reuters reported that both Vale and Norsk Hydro denied the existence of any agreement or commitments. Norsk Hydro's spokesman is quoted denying the deal, saying, 'Norsk Hydro has no plans to make any investments in Ghana.' Vale confirmed that they had commissioned a feasibility study from VALCO, but stated that Vale has no interest in taking part in the reopening process of the aluminum smelter. The spokesman refused to speculate about the potential bauxite mine or alumina refinery project pending the completion of the study.

¶5. (SBU) Ghana's Minister of Trade, Industry & Private Sector Development, Papa Owusu-Ankomah, commented to the press that he was astonished by the firms' denials, and admonished local reporters that the deal was sensitive and that their reporting could cause the consortium to back out from the deal. COMMENT: The Minister's feigned shock is likely a public face-saving gesture. The GOG's inability to provide guarantees for steady electric power at low rates makes the sale of VALCO a difficult task, as underlined by the skittishness of the GOG's anointed saviors of its aluminum industry. END COMMENT.

¶B. Extractive Industries: Diamonds Fall, Gold Rises

¶6. (SBU) The relationship between mining companies and their host communities is often contentious in Ghana. Presently, Newmont Gold Ghana Limited (Newmont) is facing opposition from community members from the protected Ajenjua Bepo Forest Reserve at New Abriem in Ghana's Eastern Region. Newmont's plans include open-pit operations on 70 hectares of the reserve. Local community groups have expressed opposition and claim that the project will devastate the livelihoods of over 7,000 people due to environment degradation, while displacing 1,000 others. Newmont is awaiting an approval from the Environmental Protection Agency (EPA) in Ghana. COMMENT: Embassy contacts at Newmont (PROTECT SOURCE) privately suggest these are standard pressure tactics to secure additional compensation and 'community benefits' from the company. END COMMENT.

¶7. (U) On October 20, the GoG brought a motion to Parliament to develop a new mining lease agreement between the GoG and the 21 mining companies currently operating in Ghana. Since most of the mining leases were developed between 1994 and 2007 and were never formally ratified by Parliament, this development sets the stage for more political pressure and demands on mining companies, to be formulated by the next government.

¶8. (U) Gold prices have risen on the world market; Ghana's national gold holdings as of September 18, 2008 were valued at USD 245.741 million. Ghana's diamond production in the first half of 2008 was 395,236 karats, down 22 percent from the first half of 2007. All mining operations in Ghana have been challenged by rising costs of electricity, fuel and other inputs.

¶9. (U) Chirano Gold Mine, a Canadian mining firm in the Western Region of Ghana, will invest over USD 80 million to expand its plant processing capabilities and to commence an underground mining operation. The project is expected to nearly double the company's annual production rates from 130,000 to 250,000 ounces per year.

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